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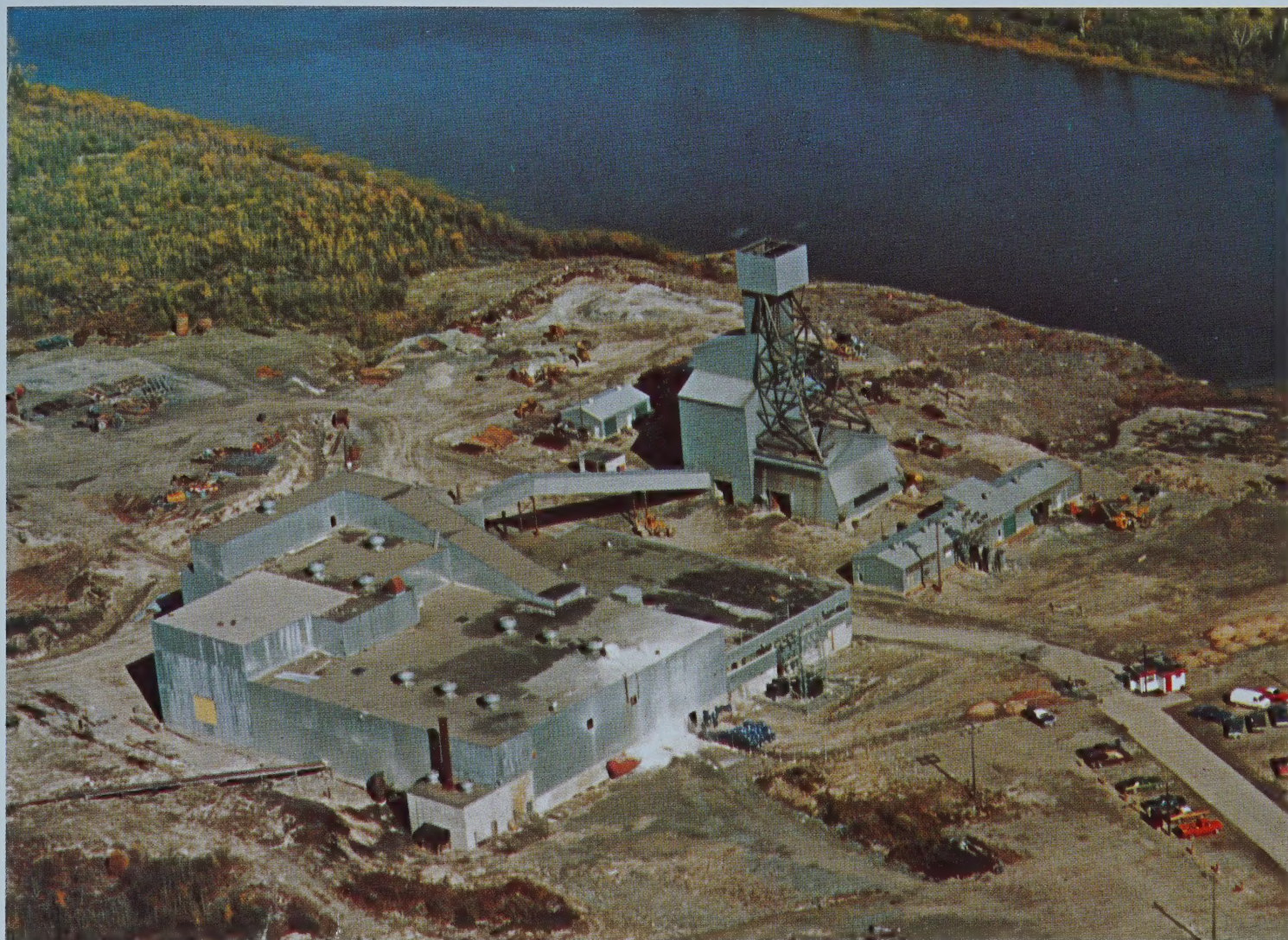
EXPLORATION AND DEVELOPMENT CO., LIMITED



GOLD SILVER GOLD SILVER
Au Ag Au Ag Au Ag Au Ag
GOLD SILVER GOLD SILVER
Au Ag Au Ag Au Ag Au Ag

1978

ANNUAL REPORT



Looking northeast across the mine and mill at the Joutel Township gold mine of Agnico-Eagle Mines Limited. This modern and highly efficient treatment plant is currently being expanded with the installation of a completely new secondary crushing plant with two crushers, replacing the single gyratory crusher within the main mill building. In addition to providing greater flexibility, the new \$330,000 crushing facility will enable an expansion in the current milling rate of approximately 1,000 tons daily, to at least 1,500 tons as mining conditions warrant.

mentor 
EXPLORATION AND
DEVELOPMENT CO. LIMITED

MENTOR EXPLORATION AND DEVELOPMENT CO., LIMITED

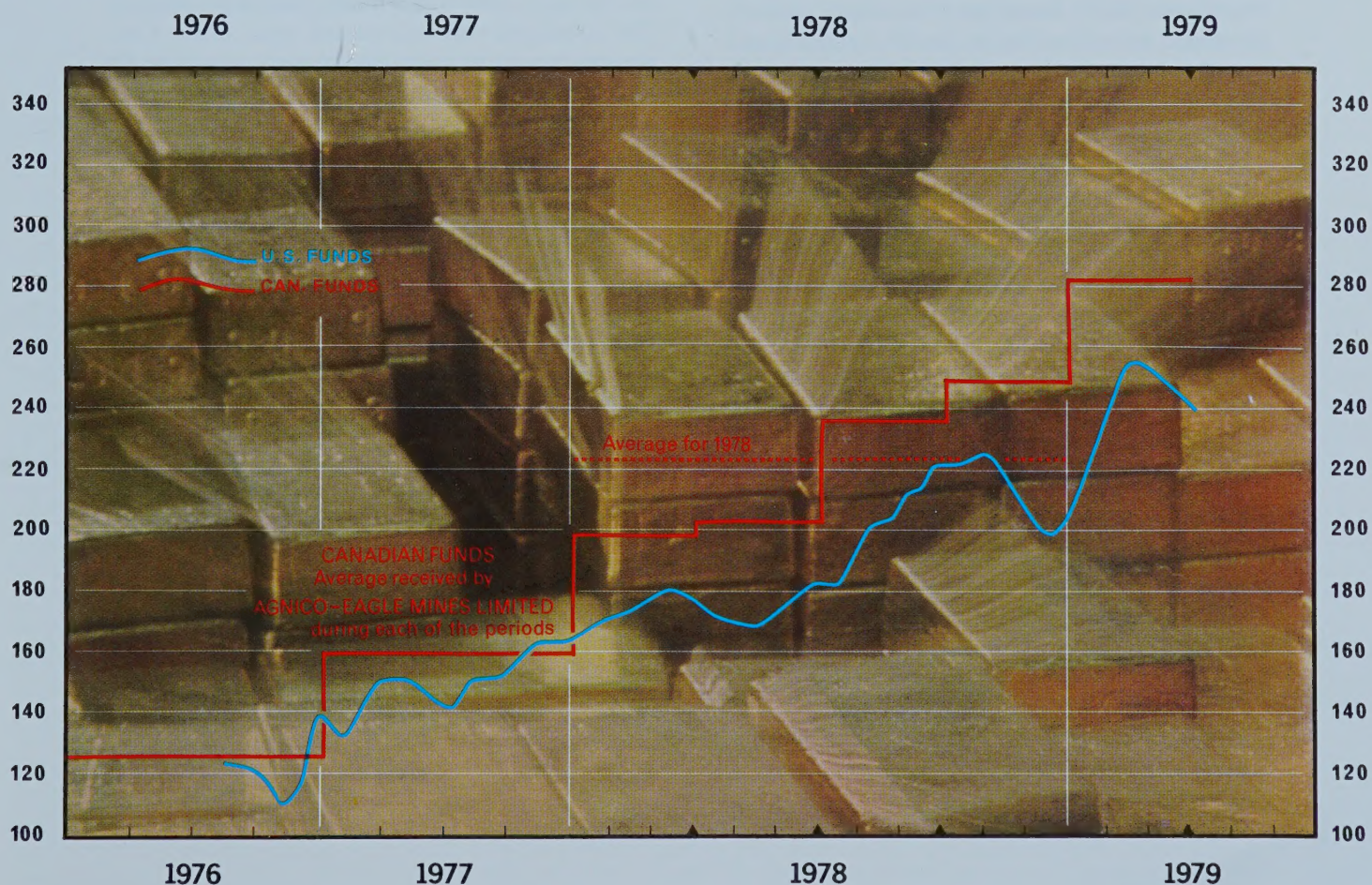
Executive and Head Office	Suite 300, 365 Bay Street, Toronto, Ontario M5H 2V1
Directors	IRVING DOBBS PHILIP DRUTZ GORDON W. KIRK, P.Eng. JOHN R. MURRAY PAUL PENNA ALBERT WASSERMAN
Officers	PAUL PENNA, <i>President</i> MIKEY DRUTZ, <i>Secretary-Treasurer</i>
Consulting Geologist	W. A. HUBACHECK, B.Sc., P.Eng.
Transfer Agent and Registrar	GUARANTY TRUST COMPANY OF CANADA Toronto, Ontario
Auditors	STARKMAN, KRAFT, ROTHMAN, BERGER & GRILL Chartered Accountants Toronto, Ontario
Solicitors	SHIBLEY, RIGHTON & MCCUTCHEON Toronto, Ontario
Shares Listed	TORONTO STOCK EXCHANGE Toronto, Canada
Annual Meeting	June 22, 1979, 11:30 a.m. (Toronto Time), Library, Royal York Hotel, 100 Front Street West, Toronto, Ontario

INDEX OF CONTENTS

	Page
Directors' Report to the Shareholders	4
Map of Molybdenum and Gold Properties, Dumagami Mines	6
Map of Tungsten-Molybdenum Property, B.C.	10
Financial Statements	12
Auditors' Report to Shareholders	13

The composite chart below shows the graph-line for world gold price (blue) in U.S. funds. The stepped line (red) shows the average price received by Agnico-Eagle Mines Limited for 1976 and 1977 on an annual basis and on a quarterly basis for 1978 and the first three months of 1979. The dotted line (red) shows the average received during the 12 months of 1978. The divergence of these average prices from the U.S. price graph line shows the effect of the depreciation of the Canadian dollar in terms of its U.S. counterpart, virtually since the beginning of 1977. During 1977 the Canadian dollar was at an average discount of 6% increasing to 16% during 1978 and into 1979. A contrast is very apparent in terms of the recent peak in the price of gold to US\$275 which equates to nearly \$320 an ounce in Canadian funds.

Weekly Average Gold Price, Second Fixing — London Gold Market



DIRECTORS' REPORT TO THE SHAREHOLDERS

The Directors are pleased to present the 1978 Annual Report of the Corporation which includes the audited financial statements for the year ended December 31, 1978 together with a summary of corporate developments, mineral property interests and principal investments.

During the year, the exploration efforts and investments of the Corporation broadened appreciably from its basically gold-silver oriented interests to encompass such strategic metals as molybdenum and tungsten.

The gold-silver theme derives principally from your Corporation's substantial minority shareholdings in **Agnico-Eagle Mines Limited**, with its separate gold and silver mining divisions; and in **Dumagami Mines Limited** which owns a partially developed gold-silver-copper deposit, currently on a standby basis, but rapidly assuming economic viability due to the emerging pattern of higher, stable gold prices.

The important added dimension to your Corporation's diversity of metal and mineral interests stems from the acquisition during 1978 by **Dumagami Mines Limited** of the former producing Preissac molybdenum mine in Quebec which is now being prepared for anticipated early mining and milling operations, plus the previously reported tungsten property acquisitions by your Corporation in the Salmo area, British Columbia.

Financial

Net income for 1978 amounted to \$179,865 compared with \$248,910 for the previous year. Working capital at December 31, 1978 at \$1,743,218 shows a modest increase from \$1,721,670 at the previous year end.

Income during the year was principally attributable to gains on the sale of securities and invest-

ments and interest and dividends earned (\$384,475) less administrative and general expenses (\$204,610). Subsequent to the 1978 year end, working capital was augmented by the dividend payment made by Agnico-Eagle Mines Limited of 10¢ per share (U.S.) funds).

Investments

Marketable securities, mainly consisting of shares in Agnico-Eagle Mines Limited, had a carrying value at December 31, 1978 of \$2,992,600 and a year end quoted value of \$5,865,177. Investments, including 743,100 shares of Dumagami Mines Limited and 1,385,582 shares of Sudbury Contact Mines, Limited, were carried at a cost of \$1,036,910 but having a year end quoted value of \$2,288,674. The combined year end quoted value of the Corporation's securities and investments exceeding \$8 million has subsequently improved to an approximate current value of nearly \$11 million.

The following is a tabulation of your Corporation's principal investment holdings at April 30, 1979:

Agnico-Eagle Mines Limited — 1,057,820 shares equal to an approximate 7.6% interest.

Dumagami Mines Limited — 768,000 shares equal to an approximate 17% interest.

Goldex Mines Limited — 164,540 shares equal to an approximate 7% interest.

Sudbury Contact Mines, Limited — 1,385,582 shares equal to an approximate 21% interest.

The following separate summaries of the corporations in which Mentor has significant investment interests are presented for the information of shareholders.

AGNICO-EAGLE MINES LIMITED

The corporation operates separate gold and silver mining divisions, respectively located in Joutel Township, Quebec, and in the Cobalt area of Ontario. The following are the principal financial and operating highlights with comparative 1977 figures in parentheses:

Financial results were at a record high for 1978 with bullion revenue for both divisions totalling \$15,786,288 (\$11,069,222) and cash flow from operations \$6,644,349 (\$2,585,516) equal to \$0.48 (\$0.19) per share. Consolidated net income after non-cash write offs of \$4,008,047 (\$2,946,877) for the year amounted to \$2,636,302 (\$361,361 loss) equal to \$0.19 (\$0.03 loss) per share. Working capital at year end of \$5,851,265 (\$159,289) shows a very significant improvement.

The Gold Division revenue of \$14,107,110 (\$10,110,868) reflects the higher average price received during the year for gold at \$221.89 (\$158.14) per ounce, with a corresponding increase in net division revenue of \$6,667,305 (\$3,330,854). Gold production of 63,157 (63,481) ounces came from the milling of 361,875 (363,526) tons of ore averaging 0.191 (0.197) oz/ton gold at an average recovery rate of 91.32% (88.65%).

The Silver Division revenue of \$1,679,178 (\$958,354) reflects the higher average price received for silver during the year of \$6.26 (\$4.82) per ounce, as well as the increase in silver production at 268,208 (198,811) ounces from the milling of 44,266 (44,362) tons of ore. Net division revenue amounted to \$428,202 (\$185,376 loss).

Continuation of these significantly improved financial results was demonstrated in the 1979 first quarter with cash flow from operations totalling \$2,066,144 equal to \$0.15 per share and net income of \$1,182,283 or \$0.085 per share. Operations at the Gold Division were favourably influenced by the continuing increase in gold prices which averaged \$281.25 per ounce during this period. Gold production for the 1979 first quarter totalled 16,297 ounces from the treatment of 87,700 tons of ore grading an average 0.203 oz/ton gold.

Important developments at the Gold Division include a new and separate plant housing the secondary crushing facility which is now being installed at the mine. In addition to providing greater

operating flexibility and efficiency, this new unit will enable an expansion in the milling rate from the current 1,000 ton per day capacity to at least 1,500 tons per day as mining conditions warrant.

Highlights at the Silver Division include important new high grade silver intersections at the Beaver-Temiskaming Project, and the acquisition under leasing arrangements of the former producing Castle-Trethewey Mine at Gowganda, and the Langis and adjoining Dolphin Miller properties in nearby Casey and Hearst Twps. These former producing mines were operated during periods of appreciably lower silver prices. The historic average grade of ore treated at the Castle-Trethewey was approximately 36 ounces per ton while the Langis had millheads averaging in excess of 20 ounces per ton. Both of these mines will be tested during 1979 with the objective of resuming production of silver as well as by-product cobalt.

The major financial highlight for Agnico-Eagle Mines Limited was the announcement on March 26, 1979 of an initial dividend of 10¢ (U.S.) per share, paid to shareholders on May 4, 1979.

DUMAGAMI MINES LIMITED

This corporation, in which Mentor holds an approximate 17% equity interest, owns a gold-silver-copper deposit in Bousquet and Cadillac Townships, Quebec, and the recently acquired Preissac molybdenum property in nearby Preissac Township.

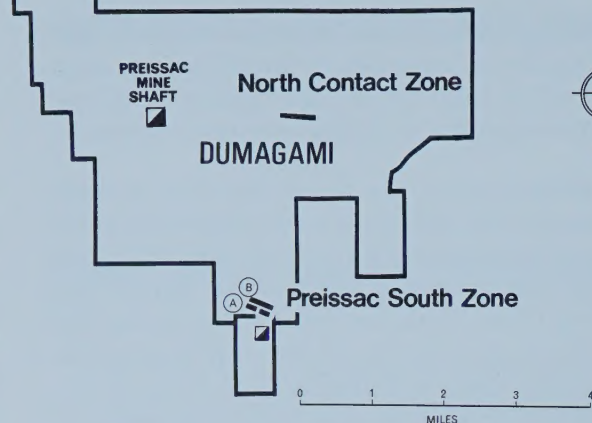
The molybdenum property which was acquired from Noranda Mines Limited early in 1978 consists of 3,900 acres and includes the mining concessions and claims of the formerly producing Preissac Molybdenite Mines Limited. For purposes of description, the block of 47 claims is divided into two main areas, the 'Preissac Mine' and the 'Preissac South Zone'.

The Preissac Mine operated from July, 1964 to November, 1971, and during this period some 2.5 million tons of ore were produced, grading an average 0.34% MoS₂. Remaining reserves at the time of closure were estimated as follows:

Preissac Mine — 1,105,000 tons above the 1,000 foot level grading 0.31% MoS₂

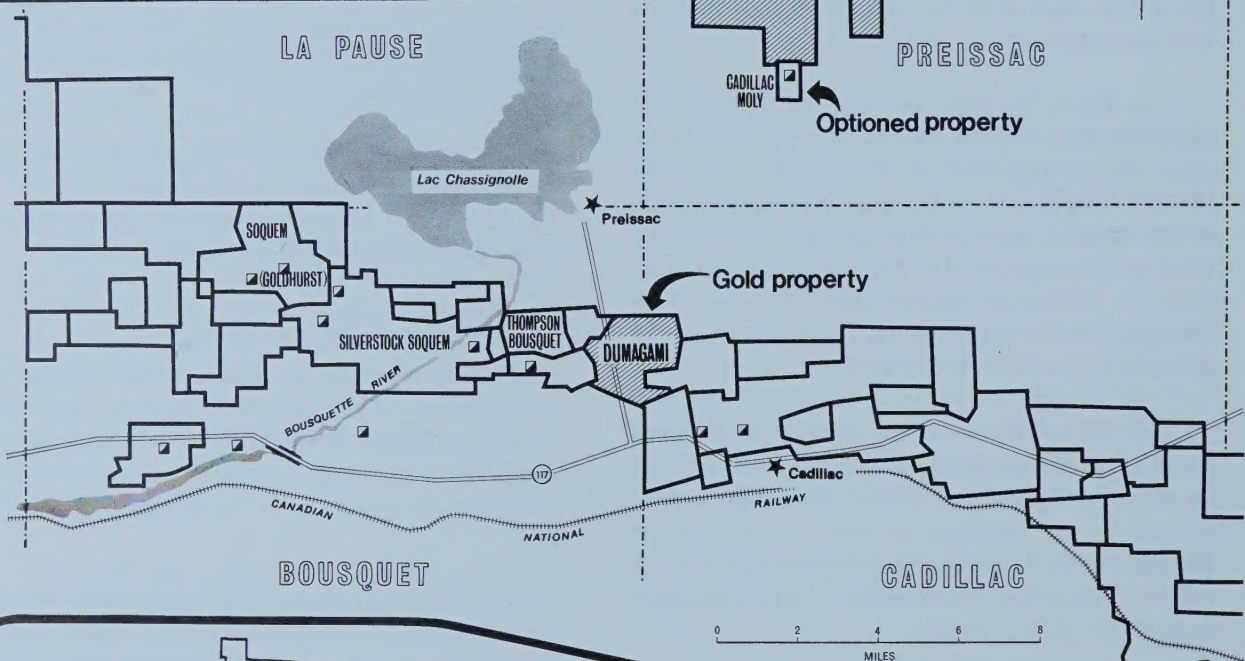
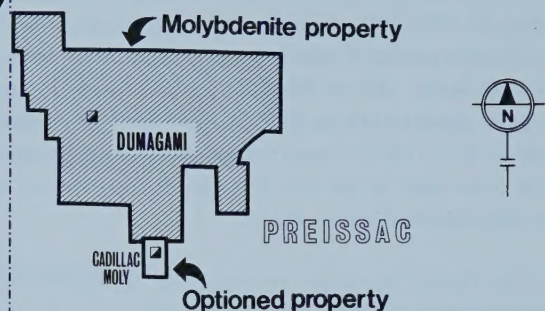
Preissac South Zone — 409,000 tons to the 400 foot horizon grading 0.40% MoS₂

DETAIL PLAN of MOLYBDENITE PROPERTY



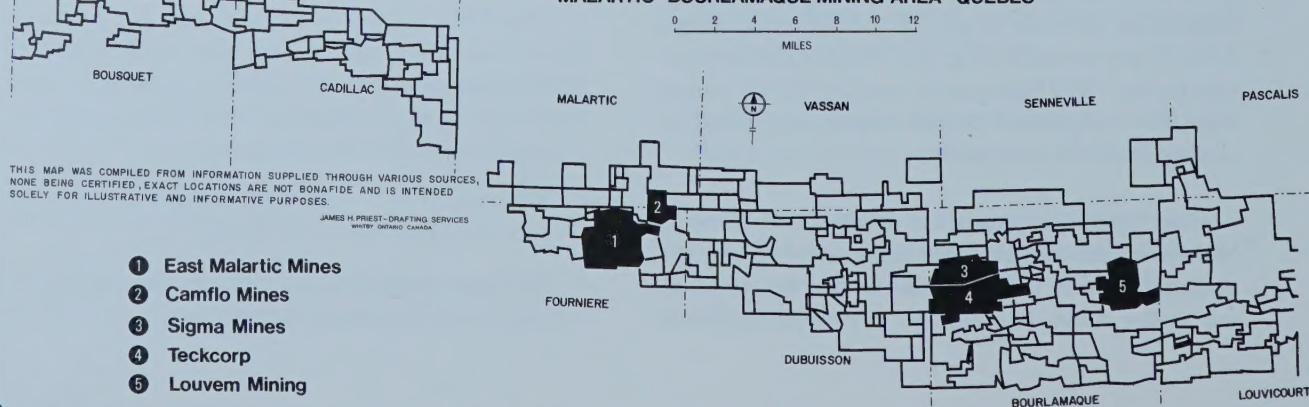
PREISSAC
CADILLAC

MALARTIC · VAL d'OR GOLD CAMP



MAJOR GOLD PRODUCERS

MALARTIC · BOURLAMAQUE MINING AREA · QUEBEC



THIS MAP WAS COMPILED FROM INFORMATION SUPPLIED THROUGH VARIOUS SOURCES, NONE BEING CERTIFIED, EXACT LOCATIONS ARE NOT BONAFIDE AND IS INTENDED SOLELY FOR ILLUSTRATIVE AND INFORMATIVE PURPOSES.

JAMES H. PRIEST - DRAFTING SERVICES
WINNIPEG, ONTARIO, CANADA

- ① East Malartic Mines
- ② Camflo Mines
- ③ Sigma Mines
- ④ Teckcorp
- ⑤ Louvem Mining

The Preissac South Zone, located along the southern boundary of the property block, is the northern extension of the formerly producing Cadillac Molybdenite Mine main vein system. The southern portion of this vein system was developed by a shaft to 800 feet below surface on the Cadillac Molybdenite property near the common boundary.

A two-phase program was recommended by Dumagami's consultant, the first phase to entail both surface and underground drilling to prove up additional ore reserves at the Preissac South Zone, in order to determine an appropriate rate of production. Thirteen holes totalling 5,536 feet of

drilling were completed during the period from June to October, 1978. Four holes were completed on the Preissac South Zone along a 900 foot strike length which confirmed previous results on this zone. Reserves were recalculated using the additional information from drilling and estimated as follows:

"A" Vein	399,000 tons	grading	0.35% MoS ₂
"B" Vein	62,608 tons	grading	0.54% MoS ₂
Total		461,608 tons	0.39% MoS ₂

These reserves are calculated to the 400 foot horizon and include a 40% allowance for mining dilution.

The new mining plant erected by Dumagami Mines Limited on the former Cadillac Molybdenum shaft site on Preissac Lake. This 800-ft. shaft is presently being pumped out and underground work has commenced on the 300 level, consisting of slashing and drifting for the establishment of diamond drill stations from which holes will be drilled into the adjacent Preissac South Zone on the Dumagami Mines' property. Similar work will be carried out on the lower levels as they are exposed, particularly on the 600 level where a 1,000 foot long crosscut will be driven into the Preissac ground as a drilling base to outline this zone at greater depth.



In order to prove up additional reserves on the Preissac South Zone, the adjoining mining concession containing the existing shaft and related underground workings, was acquired under lease. Currently, a production headframe and shaft house, equipped with 2-ton skips and cages, have been installed at the shaft. The hoist and compressor building has been erected and a hoist and compressor have been installed. The mining plant is operational and capable of carrying out the scheduled underground exploration and development of the Preissac South Zone.

Dewatering of the underground workings is continuing and is currently at the 450 level. Underground work has commenced on the 300 level, consisting of slashing and drifting for the establishment of diamond drill stations.

Negotiations are proceeding for a sales contract covering the next three or four years which it is felt can be obtained at a fair premium over the present producer price of US\$7.50 per lb. MoS_2 , equating to approximately \$8.70 per lb. in Canadian funds. This price compares with \$1.50 per lb. in 1972, and a range between \$1.68 to \$1.80 during the period from 1966 to 1971 when the Preissac Mine was in operation.

During the period of negotiation for the sales contract, a feasibility study will be prepared for the purpose of arranging bank financing covering the construction of a 1,000-ton concentrator. In the meantime, bridge financing for the project will be advanced equally by Noranda Mines Limited and Agnico-Eagle Mines Limited.

Also during this period, underground development work will be concentrated on outlining sufficient ore for an early production start-up. In order to expedite the construction program, the main plant building has been ordered to enable it to be enclosed before next winter.

Gold Deposit in Bousquet-Cadillac Twps.

The gold property owned by Dumagami Mines Limited is about nine miles south of the Preissac Mine area containing the existing mill, office and ancillary buildings. A secondary highway connects both properties. The town of Cadillac is about three miles distant to the southeast and a paved highway connecting to the main Val d'Or-Montreal highway passes through the eastern part of this 26-claim

property. Electrical power is readily available as a Quebec Hydro transmission line crosses the claim group.

As previously reported, ore reserves at the gold property are estimated at 2.3 million tons to a depth of 800 feet, grading 0.096 oz. gold, 0.27 oz. silver per ton and 0.16% copper. Drilling carried out in 1975 indicated that some 300,000 tons were available for the then proposed open pit mining operation with the remainder to be extracted by underground methods.

The gold mine was being readied for a planned pilot operation at an initial rate of 500 tons daily, commencing in 1976, until a decision was taken late in 1975 to suspend development and place the project on a standby basis. This decision was taken in conjunction with the sharp drop in the price of gold at that time from the late 1974 peak just under \$200 per ounce to around \$130 during the second half of 1975.

Subsequently, around mid-1976, the price of gold bottomed just above \$100 per ounce and since then has climbed steadily to a 1978 high of \$244 an ounce on October 31st. The current pattern is even more impressive with a steady advance from the 1978 closing price of \$224 to a recent peak over \$270.

(Note: The depreciation in the value of the Canadian dollar which decreased from 91.4¢ to 84.3¢ in terms of its U.S. counterpart during 1978, resulted in Canadian gold producers obtaining an average of close to \$230 per ounce for the year as compared with \$162 for the previous year.)

An up-date of the 1975 feasibility study of the Dumagami Mines' gold project showed that a gold price considerably in excess of \$200 per ounce is required for a viable operation. However, if a custom mill was available in the area, the deposit would be viable at current prices. This up-date was conducted latterly in 1978, when gold prices were appreciably below the current range, equating to \$300 an ounce or more in Canadian funds.

A recent article in *The Northern Miner* (April 5, 1979) postulated that the Quebec government's SOQUEM is seriously considering building a custom mill in the area. SOQUEM is a 49% partner in the Silverstack Mines' property in Bousquet Twp. which recently shipped a total of 56,000 tons for

bulk sampling purposes relating to tentative plans to place this gold property into production. The Silverstack property is less than three miles to the west of the Dumagami Mines' known gold deposit.

OTHER INVESTMENT HOLDINGS

As noted, your Corporation owns 1,385,582 shares of **Sudbury Contact Mines, Limited** and 164,650 shares of **Goldex Mines Limited**. These properties of these two companies have attractive exploration potential at appropriate gold prices.

Exploration on the 51-claim property of Sudbury Contact in the Kirkland-Larder Lake area of Ontario was resumed during 1978, principally concentrated on the Knutson Zone about 700 feet south of the Laguerre Shaft, the latter being the area of the 1975-76 work. Surface diamond drilling during 1978 amounted to 21 holes drilled for a total of 8,614 feet. Eighteen of these holes were drilled to test the Knutson Zone for a total of 6,371 feet drilled.

Generally, this drilling tested to a maximum depth of about 225 to 250 feet below surface. Possible ore indicated from the results of diamond drilling of two adjacent veins in the Knutson Zone amounted to 26,100 tons averaging 0.205 oz/ton gold across a true width of 8.8 feet. The drilling was carried out on seven sections 50 feet apart with significant intersections obtained in 14 holes on sections three through to seven (approximately 200 feet). Along the strike of the principal veins to the south, Hole No. 20 intersected 0.27 oz/ton gold across 4.5 feet. This was the last section drilled during the program and the ground to the south is open for possible extension.

A deep hole, amounting to 1,637 feet, was also put down to test under the Raven River Shaft workings which bottomed at 670 feet. This hole intersected the gold-bearing syenite at a vertical depth of 1,200 feet and cut low gold values over a wide width. The best value obtained was 0.085 oz/ton gold across 10 feet. The Raven River Shaft is about 2,500 feet east of the Laguerre Gold Mine property.

The Kirkland-Larder Lake property of Sudbury Contact extends for a distance of nearly four miles immediately south of the east-west striking Kirkland-Larder Lake Break with which the producing and former producing mines in the area are associated.

VICTORY TUNGSTEN PROPERTY, B.C.

During 1978, the program of geochemical surveying and reconnaissance prospecting was continued on the Victory Tungsten property acquired by Mentor under working option during the previous year. Several claims were added to the property during the 1977 program and now covers a combined area of some 3,000 acres. The Victory Tungsten property is located about six miles southwest of Salmo and about two miles east of the tungsten mines of Placer Development which operated both during and subsequent to World War II.

The 1978 program obtained anomalous tungsten values in soils about 1.5 miles south of the original Victory deposit where drilling by previous operators indicated some 82,000 tons grading 0.54% WO_3 (tungstic oxide). It is proposed to test the anomalous area by trenching and diamond drilling during the coming year. The Black Rock group of 21 reverted Crown grants adjoining to the west of Cominco's H. B. Mine was acquired. Soil sampling on this group located an interesting lead-zinc anomaly 1,500 feet northwest of the now idle H. B. Mill. The Truman group of 14 claims located two miles south of the Black Rock was also acquired. Previous operators drilled 20 holes on a lead-zinc occurrence on the latter property.

Negotiations are currently in progress in respect of a proposed joint venture involving certain former producing tungsten properties in the immediate area. The contemplated joint venture envisages the pooling of these properties with those held by Mentor, the latter undertaking an expenditure of some \$250,000 to earn a 60% interest in the pooled properties.

GENERAL

The price of gold reached a record high over US\$270 per ounce during May, 1979 continuing the strong and sustained uptrend clearly evident since the beginning of 1977. Translated into Canadian funds, the price approximates \$315 per ounce. The probability of the price of gold reaching over US\$300 an ounce during 1979 now seems attainable.

The appended Gold Chart on page 3 of this report, shows the pattern of gold prices to the end of the 1979 first quarter, which is expressed in U.S. dollars, and the average price received by Agnico-

TUNGSTEN-MOLYBDENUM PROPERTY

Salmo B.C.

mentor
EXPLORATION AND DEVELOPMENT
COMPANY LIMITED



Legend

- NO OUTCROP
- GRANITE
- LIMESTONE, DOLOMITE
- ARGILLACEOUS SEDIMENTS
MINOR LIMESTONE
- QUARTZITE



Symbols

- W Tungsten
- Mo Molybdenum
- Zn Zinc
- Au Gold
- ★ Producers past & present

Eagle for its gold production in the quarterly periods of 1978 as well as the average for all of the year, quoted in equivalent Canadian currency.

In more precise terms, the average price received by Agnico-Eagle for each of the 1978 quarterly periods ranged from \$197.12 in the period ended March 31st to \$248.45 per ounce for the final 1978 quarter, or an average for the entire year of \$221.89 an ounce. For the 1979 first quarter, an average gold price of \$281.25 was realized. These prices compare with the 1977 average of \$158.14 an ounce which again contrasts with \$123.55 per ounce received for 1976 gold production.

The economic implications are obvious. A somewhat similar scenario is evident in the strong prices for silver, which in 1978 averaged about \$6.25 per ounce in Canadian funds compared with the 1977 average below \$5.00 and a current range around \$9.00 per ounce. Understandably, prices for both gold and silver should impact favourably on the earnings outlook of Agnico-Eagle Mines Limited for 1979.

Similarly, the continuation of these higher gold prices will clearly enhance the prospects for early production of the Dumagami Mines' gold deposit in Bousquet-Cadillac Twps., Quebec. A commitment to start up would also be accelerated by any plans for a custom milling facility in the area.

In summary, the Board of your Corporation views the current year with high expectations, particularly in respect of its investment interests in Agnico-Eagle Mines Limited and Dumagami Mines Limited.

On behalf of the Board of Directors,

A handwritten signature in dark ink, reading "Paul Penna". The signature is written in a cursive, flowing style with a large initial "P".

May 28, 1979

President

BALANCE SHEET

AS AT DECEMBER 31, 1978

ASSETS

CURRENT

Cash	
Marketable securities, at lower of cost and market (market value \$5,865,177; 1977 — \$5,060,628)	
Accrued interest receivable	
Sundry receivable	

INVESTMENTS, at cost (Note 2)

MINING CLAIMS AND PROPERTIES, at cost (Note 3)

DEFERRED EXPLORATION EXPENDITURES (Note 1)

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Bank indebtedness, secured by certain securities	
Payable to brokers, secured by certain securities	
Accounts payable and accrued charges	
Loans payable — 10%	

SHAREHOLDERS' EQUITY

Capital

Authorized

5,000,000 Shares, without par value

Issued

3,455,746 Shares

RETAINED EARNINGS

See accompanying notes to financial statements.

MENTOR EXPLORATION AND DEVELOPMENT CO., LIMITED

1978	1977
\$ 786	\$ —
2,992,600	2,201,922
53,621	31,573
19,098	1,000
3,066,105	2,234,495
1,118,729	977,046
155,880	155,880
177,368	160,734
<u>\$4,518,082</u>	<u>\$3,528,155</u>

\$1,085,000	\$ 75,430
159,814	386,242
45,673	14,253
32,400	36,900
<u>1,322,887</u>	<u>512,825</u>

1,802,966	1,802,966
1,392,229	1,212,364
3,195,195	3,015,330
<u>\$4,518,082</u>	<u>\$3,528,155</u>

AUDITORS' REPORT TO THE SHAREHOLDERS of Mentor Exploration and Development Co., Limited

We have examined the balance sheet of Mentor Exploration and Development Co., Limited as at December 31, 1978 and the statements of income and retained earnings, deferred exploration expenditures and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

STARKMAN, KRAFT, ROTHMAN, BERGER & GRILL
Chartered Accountants

Toronto, Ontario
March 2, 1979

Approved on behalf of the Board of Directors:

PAUL PENNA, Director.

IRVING DOBBS, Director.

MENTOR EXPLORATION AND DEVELOPMENT CO., LIMITED

STATEMENT OF INCOME AND RETAINED EARNINGS

For the Year Ended December 31, 1978

	1978	1977
EXPENSES		
Administration and office services	\$ 10,800	\$ 10,800
Interest and bank charges	108,965	35,795
Legal and audit	11,345	8,307
Shareholders' information	15,803	15,413
Property examination consulting fees	38,170	29,062
Transfer agent fees	4,342	3,405
Miscellaneous	5,166	5,505
Travel expense	9,119	7,117
Directors' fees	900	1,200
	<u>204,610</u>	<u>116,604</u>
Less: Gain on sale of marketable securities and investments	360,587	337,923
Interest and dividends earned	23,888	27,591
	<u>384,475</u>	<u>365,514</u>
INCOME BEFORE INCOME TAXES	179,865	248,910
Income taxes	—	39,041
INCOME BEFORE EXTRAORDINARY ITEM	179,865	209,869
Utilization of prior years' unrecorded deferred tax benefit	—	39,041
NET INCOME FOR THE YEAR	179,865	248,910
RETAINED EARNINGS, beginning of year	1,212,364	963,454
RETAINED EARNINGS, end of year	<u>\$1,392,229</u>	<u>\$1,212,364</u>

See accompanying notes to financial statements. *

MENTOR EXPLORATION AND DEVELOPMENT CO., LIMITED

STATEMENT OF DEFERRED EXPLORATION EXPENDITURES

For the Year Ended December 31, 1978

	<u>1978</u>	<u>1977</u>
BELLETERRE AREA, QUEBEC		
Staking	\$ —	\$ 3,382
Consulting fees	—	10,337
Licences and taxes	—	570
Line-cutting	—	1,638
Electromagnetic survey	—	1,194
Diamond drilling	—	26,378
	<u>—</u>	<u>43,499</u>
SALMO AREA, BRITISH COLUMBIA (Note 3)		
Surveying	—	43,586
Consulting fees	<u>15,473</u>	<u>1,176</u>
	<u>15,473</u>	<u>44,762</u>
OTHER PROPERTIES		
Licences and taxes	<u>1,161</u>	<u>993</u>
DEFERRED EXPLORATION EXPENDITURES, beginning of year	<u>160,734</u>	<u>71,480</u>
DEFERRED EXPLORATION EXPENDITURES, end of year	<u>\$ 177,368</u>	<u>\$ 160,734</u>

See accompanying notes to financial statements.

MENTOR EXPLORATION AND DEVELOPMENT CO., LIMITED

SUMMARY OF DEFERRED EXPLORATION EXPENDITURES

As at December 31, 1978

	1978	1977
Hill Group, Ontario	\$ 66,400	\$ 65,593
Halet Group, Ontario	2,520	2,208
Chandler Group, Ontario	684	642
Belleterre Area, Quebec	47,529	47,529
Salmo Area, British Columbia	60,235	44,762
	<u>\$ 177,368</u>	<u>\$ 160,734</u>

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended December 31, 1978

	1978	1977
SOURCE OF WORKING CAPITAL		
Net income for the year	\$ 179,865	\$ 248,910
Sale of investments	—	15,581
	<u>179,865</u>	<u>264,491</u>
APPLICATION OF WORKING CAPITAL		
Acquisition of investments	141,683	53,809
Exploration expenditures	16,634	89,254
Acquisition of option on mining property	—	30,000
	<u>158,317</u>	<u>173,063</u>
INCREASE IN WORKING CAPITAL	21,548	91,428
WORKING CAPITAL — beginning of year	1,721,670	1,630,242
WORKING CAPITAL — end of year	<u>\$1,743,218</u>	<u>\$1,721,670</u>

See accompanying notes to financial statements.

MENTOR EXPLORATION AND DEVELOPMENT CO., LIMITED

NOTES TO FINANCIAL STATEMENTS

December 31, 1978

1. ACCOUNTING POLICY

The company follows the policy of deferring exploration expenditures until such time as the properties commence production. Properties determined to be of little or no value are written down to nominal value and deferred exploration thereon is written off against retained earnings. The amounts shown for deferred exploration expenditures are not intended to reflect present or future values.

2. INVESTMENTS

Investments held at December 31 are as follows:

	1978			1977		
	Number of Shares	Cost	Market	Number of Shares	Cost	Market
		\$	\$		\$	\$
Dumagami Mines Limited	743,100	734,488	1,776,009	637,500	620,814	796,875
Sudbury Contact Mines, Limited	1,385,582	302,422	512,665	1,385,582	302,422	290,972
		1,036,910	2,288,674		923,236	1,087,847
Long Shots, Inc.	27,760	81,819	No quoted value	18,510	53,810	No quoted value
		<u>1,118,729</u>	<u>2,288,674</u>		<u>977,046</u>	<u>1,087,847</u>

3. MINING CLAIMS AND PROPERTIES

Pursuant to an agreement dated June 1, 1977, the company has acquired an option on a group of mining claims in the Salmo Area of British Columbia. As consideration for the option the company paid the sum of \$20,000 on acquiring this option and a further sum of \$10,000 on December 1, 1977. In order to maintain the option in good standing the company was required to make additional payments of \$10,000 on December 1, 1978 and 1979. However, an agreement dated November 15, 1978 has extended these option payments and any future commitments by one year.

4. OTHER STATUTORY INFORMATION

Remuneration of directors and senior officers for the year ended December 31, 1978 amounted to \$900 (1977 - \$1,200).

